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INFO RUEHGB/AMEMBASSY BAGHDAD 0107
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RUEHKO/AMEMBASSY TOKYO 3794
RHEHNSC/NSC WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC 1750
RUEKJCS/SECDEF WASHINGTON DC//ISA/DSCA/DUSDAT//
RHHMUNA/CDR USPACOM HONOLULU HI//J5//
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SIPDIS

STATE FOR S/I, NEA/I, EEB/ESC/IEC/ENR, INR AND EAP/K
NSC FOR TONG
DOE FOR INTERNATIONAL AND FE
USDOC FOR 4440/MAC/EAP/OPB/ITA/TA
COMM CENTER PLEASE PASS SCJS

SENSITIVE
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E.O. 12958: N/A

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SUBJECT: KOREA SEEKS CONFIRMATION OF IRAQI WARNING OVER OIL
EXPLORATION AGREEMENT WITH KURDISTAN REGIONAL GOVERNMENT

¶1. (SBU) Summary: The state oil marketing company of Iraq, SOMO, has warned Korean refiner SK Energy that exports of Iraqi crude to Korea could be cut off beginning in January if a Korean consortium does not cancel an oilfield exploration agreement with the Kurdistan Regional Government. Korea is seeking official confirmation of the warning from the Baghdad government and considering how to respond. End summary.

¶2. (U) A consortium led by the Korea National Oil Company (KNOC) reached an agreement with the Kurdistan Regional Government in November 2007 to explore the Bazian oil field, in the Zagros basin in northern Iraq, according to local news reports. The Bazian field is estimated to hold 500 million barrels, according to the press. KNOC holds a 38 percent stake in the deal, while Korea's largest refiner, SK Energy, holds 19 percent.

¶3. (SBU) On December 27, the Ministry of Commerce, Industry and Energy (MOCIE) confirmed to ECON staff press reports that SK Energy's Dubai office had received a warning over the phone from the Iraqi state oil marketing company SOMO. SOMO said that if the Korean consortium did not cancel the deal with the Kurdish authorities, crude oil exports to SK Energy could be cut off beginning in January 2008. Press reports say that BP and an Austrian company have received similar warnings.

¶4. (SBU) Korea imported about 37 million barrels, or some 5.2 percent of its total oil requirement for 2007, from Iraq. A cut-off of that source of supply would push up local fuel prices. MOCIE indicated that it was working with the Ministry of Foreign Affairs and Trade (MOFAT) to seek confirmation of the official position of the Iraqi government. MOFAT declined to share details of its efforts, but did say that it has asked the Korean Embassy in Washington to gauge Washington's views. Press reports on December 30 quoted government sources as saying that that Baghdad was standing firm on the warning.

¶5. (U) The leader of the Korean consortium KNOC, initially reacted on December 26 saying that the project would continue despite the SOMO warning. SK Energy was reported to be in a dilemma, standing to lose either from a cut-off of Iraqi exports or from backing out of the deal with the Kurds.

¶6. (SBU) Contacted again on December 31, a MOFAT official told ECON staff that there is still no official written confirmation from Baghdad, and indicated that diplomatic efforts continue. He implied, however, that if the Iraqi government insists, the ROKG would counsel the Korean companies to stand down on the Bazian plan.

¶7. (SBU) Comment: One of Korea's motivations for its contribution of troops to northern Iraq has always been to create opportunities for Korean companies to participate in Iraq's development. The Bazian deal was one of the principal fruits. Surprisingly, the spate of news articles about the SOMO threat made no linkage to the government's decision to support the extension of the Korean military contingent in Zaytun, near Irbil. The National Assembly confirmed a one-year extension on December 28. Seen from Seoul, it is unclear whether some compromise on Bazian is still possible. End comment.

Yun